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YOUR BUSINESS

Small firms get shorted on federal contracts

Agencies missing goals consistently

By Rob Kaiser

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U.S. Rep. Don Manzullo and other legislators wanted to send a message a couple years ago by forcing the Army to stop ordering black berets from overseas.

The legislators charged that federal purchasing rules required the military to first seek American manufacturers to make the berets. Contracts with foreign firms ended up being canceled, and already purchased berets were destroyed or mothballed.

"There are 614,999 Chinese berets sitting in a warehouse in Pennsylvania," Manzullo said recently. "I carry the other one in my briefcase."

Manzullo, a Republican from Rockford and chairman of the House Small Business Committee, is eager to pull out the beret as evidence of progress in his fight to get the government to buy American.

Yet many firms, particularly those desperate to land government contracts in this dour economy, haven't seen proof that signing up the government as a customer is getting easier. Federal agencies consistently have missed their goals to spend a certain



Tribune photo by Jim Prisching

U.S. Rep. Don Manzullo, chairman of the House Small Business Committee, meets with workers at a screw company in Seward, Ill. Small-business set-aside rules are ignored, he says.

percent of their procurement dollars at small, minority and women-owned businesses.

Agencies also are increasingly bundling contracts, or combining two or more separate contracts into one, which makes it more difficult for small firms to win business.

"None of the departments have been in compliance with the small-business set-asides," Manzullo said.

A glimmer of hope for small businesses seeking federal contracts has been President Bush's statements about the government shifting its buying power to support small firms in hopes of sparking the economy.

"The current administration seems to want to take this problem seriously and wants to fix it," said Brad Close, manager of legislative affairs

for the National Federation of Independent Business.

Still, shifting the flow of federal dollars is a sizeable undertaking.

The Department of Defense, which accounts for nearly 65 percent of government buying, is focused on the war in Iraq and other concerns, not on changing its buying habits.

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CONTRACTS:

Small firms can lose out in bundling

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Government purchasing officials contend bundling contracts is more efficient, saving time and taxpayers' money. And although government agencies have goals to set aside work for small firms, they don't suffer any tangible punishment, such as fines, for not meeting them.

Democrats on the House Small Business Committee, who grade federal departments on their small-business purchasing goals, gave 12 of 21 agencies a "D" or "F" mark in their most recent report card, which was for 2001.

The government widely missed two goals. It sought to make 5 percent of its purchases from women-owned firms but achieved only 2.49 percent. And it wanted to devote 2 percent of contracts to businesses in low-income, high-unemployment communities, but those firms received just 0.72 percent of contracts, the report found.

Although the government barely missed its broad goal of awarding 23 percent of contracts to small businesses, hitting 22.8 percent, the Defense Department, at 20.5 percent, was further from the target.

However, a study released last week by the General Account-

ing Office threw those figures into doubt. The report looked at five large companies that were awarded \$1.1 billion in federal contracts during fiscal 2001 and found that \$460 million was counted as small-business awards although they didn't qualify as small businesses.

The improper counting occurred because as small firms grew, merged with other companies or were acquired, their status as small firms did not change, according to the study.

Small-business groups and some government officials also said bureaucracy and contract bundling have played large roles in the goals being missed.

Many small firms forgo the process of becoming qualified bidders for government contracts, scared away by a thicket of paperwork, Close said.

'If you don't have a real penalty involved for following the guidelines, you're not going to have the agencies following it.'

—Brad Close, National Federation of Independent Business

Meanwhile, many agencies, including the Defense Department, are increasingly bundling contracts. These larger contracts eliminate many small firms from the bidding because they don't have the resources to compete for the jobs.

A report last year from the Office of Management and Budget found that new contract awards to small firms have declined significantly. The number of small businesses winning new contracts went from more than 26,500 in fiscal 1991 to less than 12,000 in fiscal 2000.

Although bundling is defended as a way to streamline the government purchasing process, Manzullo dismisses efficiency claims.

"That's laziness," Manzullo said. "I don't know one procurement officer that's been laid off because of the bundling."

The Office of Management and Budget report calls for requiring agencies to eliminate unnecessary bundling, but many small-business officials say a lack of accountability with existing rules has compounded the problem.

"If you don't have a real penalty involved for following the guidelines, you're not going to have the agencies following it," Close said.

Major Clark, who studies procurement for the Small Business Administration's Office of Advocacy, said the motivation of government purchasers is to avoid angering legislators, something the Army failed to do with the beret orders.

"The biggest penalty is the ridicule and embarrassment before Congress," Clark said.